India

The Government of India's commitment to ethanol blending is clear, and India has the capacity to fulfill its mandate in years of surplus sugar production. The main issue is how to balance incentives for the sugar mills and the Oil Marketing Companies (OMCs). The turmoil in policies – and the intractable yet self-inflicted infrastructure issues – make India a wild card in the rankings. On the current trajectory, India could be the fourth largest destination for U.S. ethanol in the next two years based on volume. Or, the fuel ethanol exports to India might get diverted into the non-beverage ethanol category (industrial).



As U.S. ethanol producers turn to Asia as a developing export market, India has been in the spotlight for the difficulties it faces in reaching its ambitious blending goals. While on the surface the Government of India's support for ethanol has been persistent over the years, India also has struggled to balance the incentives for the producers and the blenders.

U.S. exporters will likely fill the gap between the supply and the demand, and appear to be doing so at least indirectly. However, the complexities of India's market may require a more nuanced approach than the approach for the higher ranked countries in this year's Top Markets Report (Canada, Brazil, and the Philippines).

Market Overview

According to India's National Policy on Biofuels (2009), renewable fuels are encouraged for motor vehicles, targeting a five percent blending rate for ethanol. Under the Ethanol Blending Program (EBP), the stateowned OMCs are subject to this requirement and domestically produced ethanol takes priority over foreign-produced ethanol.

However, the OMCs have struggled to obtain the ethanol supply needed for the mandate. The many benefits of ethanol are recognized – including environmental reasons and economic considerations such as cutting the deficit or reducing India's dependence on imported crude oil. However, many structural limitations have prevented the EBP from

reaching its goal of a five percent blending rate. In 2014, 13 states increased blending rates to an estimated 2.1 percent and this will increase to 2.5 percent by the end of 2015. ⁶⁵ The Government of India has repeatedly stated that it would like this rate to be increased to 10 percent.

The Government of India is making various attempts to get around the obstacles. In December 2014, a price fixing scheme for fuel ethanol procurement was introduced. However, according to news reports, this has backfired for suppliers that have high transportation charges. The suppliers that have high transportation charges.

Furthermore, in February the Government approved the long-awaited export subsidy for raw sugar, but with a condition attached—those mills that produce alcohol must offer at least 25 percent of their annual production to OMCs in order to receive the subsidy. This policy also may have unintended consequences for mills that do not make both products.

Challenges and Barriers

As mentioned, one of the most significant obstacles for U.S. ethanol exporters is that imported fuel is not allowed for blending with gasoline unless government owned petroleum companies float an expression of interest/global tender and ethanol exporter bids are competitive with domestic prices. Despite this, U.S. fuel ethanol exports to India jumped from 31 million liters in 2013 to 155 million liters in 2014, partly as a

result of a particularly large shipment of undenatured ethanol in November 2014. ⁶⁸

Similar to some other markets, industry observers say that it is possible that these exports, which are designated for fuel use, are actually repurposed once they arrive at their destination. In fact, some have theorized that due to the requirement for fuel ethanol to be domestically sourced, these exports might be substituting for industrial ethanol. Assuming that is the case, India was included in this year's report because blend rates and insufficient domestic supply are indirectly driving the demand for U.S. ethanol. Further analysis is required to verify this.

Transportation is another area that needs improvement. State level procedures that treat interstate movement of ethanol as "imports and exports" are widely viewed as impediments. ⁶⁹ The Government

of India's Transportation Minister is pushing for measures to address this. ⁷⁰

Opportunities for U.S. Companies

The challenge for U.S. companies is exploring business relationships in a complex and fragmented market, despite India's top-down approach to biofuels policies. The extent to which India's ethanol production can be supplemented with imports remains to be seen. In years of surplus sugar production, India should have no problem meeting its goals. The wever, other impediments at the state level need to be fully resolved in order to reach 5 percent blending rate or the ultimate 10 percent target. These policy mandates appear to be aspirational rather than firm, making it difficult to predict whether U.S. export growth is possible.

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